

State Employee Benefits Committee
March 30, 2009, 1:00 p.m.
Tatnall Building, Room 112
Dover, Delaware

The State Employee Benefits Committee met on March 30, 2009 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, OMB, Director,
Statewide Benefits
Faith Rentz, OMB, Statewide Benefits
Ann Skeans, OMB, Statewide Benefits
Mary Thuresson, OMB, Statewide Benefits
Casey Oravez, OMB
Kim Wells, OMB
Regina Bailey, OMB
Karen Weldin Stewart, Commissioner, DOI
Julian Woodall, Controller, DOI
Andrew Kerber, Department of Justice
Jill Ipnar, OMB, PHRST
David Craik, Office of Pensions
Kim Vincent, Office of Pensions
Velda Jones-Potter, State Treasurer
Barbara Bennett, State Treasurer's Office
Gary Pfeiffer, Secretary of Finance
Russ Larson, Controller General
Lori Christiansen, OCG
Steve Kubico, OCG
Henry Smith, Deputy Secretary, DHSS
Crystal Webb, DHSS
Ed Tos, SEBAC Chair/DOL
Christine Long, SEBAC/ DHSS
Thomas Chapman, SEBAC/DSEA
Meaghan Brennan, SEBAC/OMB
Debbie Scanlon, DOE
Judy Anderson, DSEA
Tim Barchak, DSEA
Stephen P. Sirl, DSEA, Retired
James Harrison, DSEA, Retired
Earlene Gillan-Smith, DSEA, Retired
Rich Phillip, DSEA, Retired
Mike Casey, AON
Mike Morfe, AON
Elaine Edwards, City of Dover
Rhonda Walker, City of Dover
Mary Pat Urbanik, U of D
Lionel Gilibert, U of D

Joe Morocco, HMS
Andrew Brancati, BCBSD
Faith Joslyn, BCBSD
Jay Reed, BCBSD
Mike North, Aetna
Julie Caynor, Aetna
Katherine Impellizzeri, Aetna
Wayne Kee, Dominion Dental
Jerry Messick, Dominion Dental
Lonnie Entel
Greg Sisofo, Delta Dental
Melissa Perez, DNREC
Crystal D'Andrea, DNREC
Jamie Rutherford, DNREC
Sunshine McBride, AFSCME
Vincent McCann, AFSCME
Sandy Richards, AFSCME
Karen Valentine, AFSCME, Council 81
Jerry Boiman, AFSCME
Allen Jones, AFSCME
Eugene Hanks, AFSCME, Council 81
Pat Bailey, AFSCME
Curtis Eaton, AFSCME
Suzanne N. Moore, AFSCME
Michael Burns, AFSCME
Eric Powers, AFSCME
Joe Trala, AFSCME
Bernie Gillespie, AFSCME
Frank Oberly, AFSCME
Albert Wooters, AFSCME
Gary Pippin
Brian P. Douty, DE State FOP
Doug Watts, DE State FOP
Laurence Talley, DSTA
Mary Anderson, DDDS
Dave Leiter, DHSS
Steve Holden, Del DOT
Budd Taylor, Del DOT
James Hultz, Del DOT
Chris Hesslink, Del DOT

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John Subola, Sr., Del DOT
Thomas R. Drummond, Del DOT
Jim Spencer, Del DOT
Chris Jarrell, Del DOT
Frederick Ruffin, Del DOT
Bill Buchanan, Area 23, Del DOT
Richard Ross, Del DOT
Murphy Plummer, Del DOT
Mike Traler, Del DOT
David Rife, Del DOT
James Swark, DelDOT
Jhmal Haseen, Area 10, Del DOT
Lee Benningfield, Area 23, Del DOT

Paul Cicamore, Area 23, Del DOT
Joe Schafferman, Area 23, Del DOT
Stephen Loper, Del DOT, Local 879
Dennis L. Orlando, Jr., Del DOT Area 9/879
John T. Douleyn, Del DOT, CD & A&D
Jose' Rosario, Del DOT
Megan Witt, Del DOT
Haseen Haseen, Del DOT A#10/979
A. Dixon, Del DOT
Stanroko Hopkins, Del DOT A#10/879
Matthew Gardner, Del DOT Canal Shop
Ninevah Lamoreaux, Del DOT
Dwain A. Haines, Del DOT

Agenda Items Discussed:

Introductions/Sign In

Ms. Visalli called the meeting to order at 1:00 p.m. Introductions followed. Attendees were asked to sign the Attendance sheet and for anyone interested in making comments to the SEBC to sign the Public Comment sheet.

Approval of Minutes

Ms. Visalli asked for a motion to approve the March 13, 2009 SEBC minutes. Mr. Larson made the motion to approve the minutes and Secretary Pfeiffer seconded the motion. The minutes were approved with unanimous voice vote.

Director's Report

Ms. Lakeman reported that VSP (our vision provider) will hold their rates constant for FY 2010. They will increase their allowance for frames and contact lenses to \$160 which will allow about 2,000 more people who got frames last year to get them at not out of pocket cost. A Request for Proposal (RFP) will be released for the Flexible Spending Account and the Pre-Tax Commuter Plan on April 1 for a new vendor who would take effect in January 1, 2010. Recommendations will be forthcoming in June or July 2009. Statewide Benefits is working with agencies and schools regarding the Cobra subsidy to identify employees that were involuntarily terminated since September 1, 2008 so that second notices can be sent by April 17, 2009.

SEBAC COMMENT

No Comment.

Ms. Visalli changed the order of items on the Agenda to allow Public Comments to be presented. Appreciation for their input was given. Three minutes would be allowed for an individual and five minutes for a group spokesperson to comment. Clarification was given that the elimination of Double

State Share does not fall to this committee but to the legislature, therefore, it will not come up for a vote here. The charge for this committee is limited to the health fund and the health benefits. Over the past few months a lot of progress has been made with the help of state employees and others to present a good package which fulfills our fiduciary responsibility to ensure this fund is solvent and to preserve the benefits. The budget of the health fund is separate from the State budget.

PUBLIC COMMENTS

Steve Holden, Del DOT (individual) - An 8% pay decrease and 2% increase in health benefits will put his family on the line. His wife has been unable to find work for two years. They skimp on everything already.

Bud Taylor, Del DOT (individual) –He reinforced Mr. Holden’s comments as being the case for many state employees. Due to being hit by a car while working, he is already behind on bills for three months. Having three children, one with a hearing problem and numerous doctor appointments, health benefits are extremely important. If all this is taken, many will be on the street.

Chris Hesslink, Del DOT (individual) – He and his wife are already in the process of moving in with his parents due to the economic situation and they have no children. He urged SEBC to do whatever they could to help the state employees.

Chris Jarrell, Del DOT (individual) – For the average state employee these cuts mean \$400 less per month before taxes. That’s groceries, car payment, utility bills (increasing), property taxes (skyrocketing), etc. They haven’t received any kind of raise where he works for two years and again this year. An 8% cut on pay is putting them back ten years! Ten years of work for nothing! Seven hundred state workers make less than \$21,200 a year and that is the federal poverty line. Some full time employees live on less than \$1,000 a month. Employees are angered and scared.

Mary Anderson, DDS, 30 year state employee (spoke for co-workers) – She agreed with the comments already given and added that many budgets cannot be adjusted to withstand further cuts and rising costs of living. Alternative solutions to the financial crisis were strongly urged. If cuts in health benefits are necessary it should be across the board, including teachers, state police and legislators. For single income state employees these burdens are often magnified, causing them to work a second job and/or affecting their health. All Delaware citizens need to be responsible and foot these costs, not just state employees. Similar comments from co-workers were also shared with the committee.

James Harrison, representing DSEA retired, AFSCME retired, State Troopers retired, and DE State FOP and all state employees – These retired populations are alarmed at the desire to reduce or eliminate their benefits. Such proposals could be devastating and reconsideration of all proposals was requested. Remember, these are real people your decisions affect.

Dwayne A. Haines, Del DOT (individual) – Doesn’t understand how they can even consider doing this.

Jim Spencer, President, Local 879 (for group) – Why are they going to punish state workers? It was suggested the SEBC members go into their homes and see the results of what the cuts would bring and go to the yards and see how they work. This is a statewide problem and needs to be dealt with as such. Go elsewhere for the funding.

Gary Pippin, state employee for 14+ years (individual) – He was in agreement with comments. They need to evaluate the effect by pay grade as it rougher on the low pay grade employees.

Dave Leiter, DHSS (individual) – He stated that he and others attended the SEBAC meeting the prior week and got a great deal of information. He researched family sizes, incomes and federal poverty level and stressed how these cuts would force low pay grade employees into other subsidy programs, thus saving nothing. A sliding scale should be used if cuts are made. Low income employees need protection.

Pat Bailey, AFSCME, Council 81 (for group and people who live in the state) – The public demands services from the state and the state employees provide the services. Benefits are advertised for these jobs, now you want to take them. She was not sure if it is legal due to false advertisement. To take people at the lowest income levels and increase the cost of their benefits 50% is morally wrong and unacceptable. Social Workers already have huge case loads of 500-600. Cutting pay and benefits will force more people onto food stamps and public services which will increase the case loads. This is an emergency. This is a historical financial crisis and we need to tap into the Rainy Day Fund. Change the law if need be to access the money.

Ms. Visalli stated she appreciated their comments. She restated that the SEBC only deals with the health insurance fund to pay the health claims. Comments on the pay decrease or layoffs also do not come under the SEBC. This Committee does not have the power to use the Rainy Day Fund. The responsibility of the SEBC is to make sure there is enough money to pay the employee benefit claims without cutting benefits. While there has not been a change to the state employee rate paid for health benefits for three years, health costs have increased over that time. The proposal includes using \$20M of the surplus in the health fund. Much progress has been made since the first several meetings when double the increase was proposed. The free plan has also been kept intact without changing any of the benefits. Commissioner Weldin-Stewart and Treasurer Potter have asked to consider a long term view which includes a sliding scale or a percentage of pay. As everyone must have the opportunity to choose and make choices about their health plan and benefits before July 1 these decisions must be made before the budget process is complete. The presentation today will illustrate what options are available for July 1. If better solutions arise, they will be presented in the future. If no progress is made, there is concern about what benefits the State will be able to offer and keep the fund solvent. At this time the plan ensures benefits and maintains the free plan. Ms. Visalli thanked everyone for their hard work and cooperation.

FY2010 Renewal Discussion – *Action Item*

SEBC Group Health Program FY10 Planning – Faith Rentz (handout)

- Objectives for Today's discussion
 - Review and Discuss march 13th Proposal
 - Vote on FY2010 Group Health Plan Package
 - Identify Long Range Options
 - Allow Statewide Benefits to conduct analysis
 - Options which require legislative action/significant administrative modifications
- Fund Group Health Shortfall in FY2010
 - The committee has seen this the last four meetings from September projections – As of March 2009 projection – Shortfall for FY 2010 =\$60M
- Group Health Fund surplus

- Balance in Health Fund After:
 - All expenses and obligations are met
 - Adequate reserve is deducted
- Sources of Fund Surplus:
 - Better than projected fund experience – expenditures were less than anticipated
 - Medicare Part D Subsidy Reimbursements
 - Manufacturer prescription rebates higher than contract guarantees
 - Interest Income
- March 2008 - SEBC approved an 8% increase in the State/Employer Share and use of \$40M health Fund Surplus to fund the FY 2009 increase
- Maximum available surplus to fund FY 2010 Increase: (based on February 2009 Fund & Equity & Performance YTD) \$20.0M

Note: There have been no increases to employee premiums for three years

- Calculating Revenue/Projecting Expenses
 - Rates X Enrollment = Revenue to Health Fund
 - Based on actual contracts by plan and tier
 - Number of Contracts Multiplied by Total Rate
 - Projecting Expenses
 - Evaluate most recent expenses, enrollment growth & trend
 - Current Year performance Becomes the Basis for Next Year's Projections
 - Revenue = Expenses
 - Aggregate Revenue of All Plans Must Support Aggregate Claims and Costs for all Plans

For FY 2010 there are no changes to First State Basic Plan (Free). Secretary Pfeiffer asked what risk the plan would have if massive movement occurred to the free plan. Mr. Morfe stated there is a \$12M risk if employees move from HMO/PPO to lower grade options.

- Proposal to Balance FY2010 Group Health Fund
 - Shortfall: \$59.8M
 - Governor's Recommended Budget (\$14.7M)
 - Group Health Fund Surplus (\$20.0M)
 - Plan Changes;
 - Prescription Plan Modifications
 - Elimination of 30 before 90 Program (\$ 2.1M)
 - Medco Savings – Discounts and Rebates (\$ 4.5M)
 - Suspension of Second Opinion Program (\$ 0.7M)
 - Medicare Part D subsidy (\$ 2.7M)
 - Employee Contribution Change
 - 50% increase (\$ 15.1M)
 - Balance Remaining: \$ 0
- March 13th Employee Contribution Proposal
 - Proposed Savings: \$15.1M (Savings may vary based on Enrollment Changes)
- Rates Based on 50% Employee Contribution Increase
 - No changes to first state basic plan design in FY 2010
- Prescription Plan Changes
 - Eliminate Smart Start 30 Before 90 Day Program
 - Allows member to obtain 90 day supply of maintenance medication without having to first fill a 30 day supply

- Results in savings to member and Group Health Program
 - Member will be allowed to fill their NEW and existing maintenance medications for a maximum of three 30 day supplies to determine if they are effective
 - Penalty charge of 90 day co-pay for fills less than 90 days after three 30 day supplies are filled
 - Estimated Annual Savings of \$2.1M
 - Savings from Contract Renegotiation
FY2010 Savings of \$4.5M TOTAL PRESCRIPTION SAVINGS: \$6.6M
 - Second Opinion Program and Medicare Part D Subsidy
 - \$720,000 in funding to continue Second Opinion program through FY2010
 - Recommend suspending program at the present time
 - Reevaluate need in the future
- Note: All state health medical plans allow for a second opinion
- Transfer of Medicare Part D Subsidy to OPEB
 - Reduce transfer of Medicare Part D subsidy by \$2.7M if necessary
- ADDITIONAL SAVINGS: \$3.4M

Ms. Visalli stressed that all avenues to cut costs were explored. State employees pay less than surrounding states for health care. In response to the question of what caused the shortfall, she stated that each year they project health claim costs and those costs are projected to rise. Last year \$40M was utilized from the fund surplus to cover the shortfall as a one-time solution. In 2007 there was no change in the rates. When you look at the current rates and the incoming revenue, the shortfall is \$60M. The First State Basic plan remains at no cost with no changes in benefits which will require monitoring as movement between plans occurs. Examples were provided of premium increases which should cover the gap for fiscal year 2010 to give us time to look for other options for 2011.

Mr. Larson expressed that in his 12 years on this committee this has been the most exciting and challenging, a perfect storm with the Governor's proposed salary cut and the health plan changes. The two funds and budgets are separate. He reiterated that the first proposal to increase rates was 100% which is now down to 50% and the deductibles were not increased. It took a lot of work to get to the bottom line to solve the problem and the state has contributed \$15M. Compromises were made without making changes to plans. Health care costs have been going up for years at an alarming rate, yet the average employee cost for a HMO plan has remained at 3.5%. While the employee cost is now going up to 4.6%, unless in a PPO, that is still low. Mr. Larson stated that the committee has to keep the fund solvent and the proposal is a fair option. He thanked all.

A Del DOT employee asked why there were not more warnings ahead of time as this is devastating. This is the third year with no raises and they still keep losing things. Ms. Visalli stated they will inform employees as is possible in the future. They could not forecast this. Mr. Larson added that the proposed 8% cut is on the budget side of the \$750M deficit. The committee must deal with solving the Health Fund issue today and the State will continue to look for alternatives to address the 8%. Mr. Leiter commended the SEBAC on their efforts to dispel rumors and suggested finding ways to improve disseminating communications to employees. Ms. Visalli reinforced the desire to keep dialog open to help improve things, also stressing there would be continued hours of work on these issues. The objective is to keep people in their jobs.

Ms. Visalli asked for a motion for a 50% employee contribution increase across the board totaling \$15.1M. Secretary Pfeifer made the motion, Mr. Larson seconded the motion. Commissioner Stewart abstained. All other committee members agreed with a unanimous voice vote and the motion carried.

A motion was requested for the Plan Changes with amounts of \$2.1M, \$4.5M, \$0.7M respectively. Secretary Pfeifer made the motion and Mr. Larson seconded the motion. The motion carried with unanimous voice approval. A motion was requested to utilize \$20M Group Health Fund Surplus and \$2.7 Medicare Part D Subsidy, totaling \$22.7M. Secretary Pfeiffer made the motion and Mr. Larson seconded the motion. Upon unanimous voice approval the motion carried. With the \$14.7M from the Governor's Recommended Budget, the balance equals zero. All were thanked for their hard work.

Ms. Visalli reviewed items that may come before the legislature, which are not necessarily things the committee endorses or are proposing.

- March 30th SEBC – Legislative Initiatives
 - Analyze existing policy and code requirements related to:
 - Double State Share
 - The “free” plan – currently known as “First State Basic”
 - Assessing a percent of salary for employee health care premium
 - Reducing Dependent Coverage
 - Reducing State Share coverage for Medicare Supplement plan to less than 100%
 - Rating active employees and non-Medicare eligible retirees separately
 - Rating non state participating groups separately
 - Modifying the structure of State Share for new hires and retirees after certain date

Note: These are all things the Committee has been asked to look at and evaluate in the coming months. Ms. Rentz asked if there were any particular items on the list that members may want the Statewide Benefits Office to research and analyze. Commissioner Stewart would like to work with the Statewide Benefits Office on research related to a sliding scale option for setting health premiums.

- Future SEBC Agenda Items - Ms. Rentz
 - Fund Reserve Calculation/Methodology
 - Other Post Employment Benefits (OPEB) Strategy

Note: There is a piece of epilogue in this year's operating budget which taxes this committee along with the Pension Office to prepare a report of options for presentation to the Governor and Joint Finance Committee.

- Rate Structure/Administrative guidelines for Non State Participating Groups

When questions were requested, Commissioner Stewart asked that her office's actuary assist with the calculation of the health fund reserve methodology.

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There being no more business, Ms. Visalli reminded everyone that the next SEBC meeting is scheduled for April 27, 2009, at 1:00 p.m. in the Tatnall Building. She asked for a motion to adjourn the meeting. Mr. Larson made the motion and Commissioner Stewart seconded the motion. Upon unanimous voice vote the motion carried. The meeting adjourned at 2:12 p.m.

Respectfully submitted,

Mary K. Thuresson
Administrative Specialist
Statewide Benefits Office, OMB